S. Hrg. 98-883 Pt. 2

HOW TO SAVE THE INTERNATIONAL TRADING SYSTEM

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE, PRODUCTIVITY, AND ECONOMIC GROWTH

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

NINETY-EIGHTH CONGRESS

SECOND SESSION

PART 2

JUNE 12, 1984

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

38-970 O WASHINGTON: 1984

J841-45

JOINT ECONOMIC COMMITTEE

(Created pursuant to sec. 5(a) of Public Law 304, 79th Congress)

SENATE	HOUSE OF REPRESENTATIVES
ROGER W. JEPSEN, Iowa, *Chairman*	LEE H. HAMILTON, Indiana, *Vice Chairman*
WILLIAM V. ROTH, Jr., Delaware	GILLIS W. LONG, Louisiana
JAMES ABDNOR, South Dakota	PARREN J. MITCHELL, Maryland
STEVEN D. SYMMS, Idaho	AUGUSTUS F. HAWKINS, California
MACK MATTINGLY, Georgia	DAVID R. OBEY, Wisconsin
ALFONSE M. D'AMATO, New York	JAMES H. SCHEUER, New York
LLOYD BENTSEN, Texas	CHALMERS P. WYLIE, Ohio
WILLIAM PROXMIRE, Wisconsin	MARJORIE S. HOLT, Maryland
EDWARD M. KENNEDY, Massachusetts	DANIEL E. LUNGREN, California
PAUL S. SARBANES, Maryland	OLYMPIA J. SNOWE, Maine

DAN C. ROBERTS, *Executive Director*
JAMES K. GALBRAITH, *Deputy Director*

SUBCOMMITTEE ON TRADE, PRODUCTIVITY, AND ECONOMIC GROWTH

SENATE	HOUSE OF REPRESENTATIVES
WILLIAM V. ROTH, Jr., Delaware, *Chairman*	DANIEL E. LUNGREN, California, *Vice Chairman*
JAMES ABDNOR, South Dakota	PARREN J. MITCHELL, Maryland
WILLIAM PROXMIRE, Wisconsin	JAMES H. SCHEUER, New York

CONTENTS

WITNESSES AND STATEMENTS

TUESDAY, JUNE 12, 1984

	Page
Roth, Hon. William V., Jr., chairman of the Subcommittee on Trade, Productivity, and Economic Growth: Opening statement	1
Mattingly, Hon. Mack, member of the Joint Economic Committee: Opening statement	7
Brock, Hon. William E., U.S. Trade Representative	7
Strauss, Robert, former U.S. Trade Representative	9
Busbee, George, former Governor of Georgia, and chairman, Bipartisan Coalition for American Exports	11
Pratt, Edmund, Jr., chairman of Pfizer, Inc., and chairman, Emergency Committee for American Trade [ECAT]	11
Diebold, William, Jr., former senior fellow, Council on Foreign Relations, and coauthor of "The New Multilateralism: Can the World Trading System Be Saved?"	12

SUBMISSIONS FOR THE RECORD

TUESDAY, JUNE 12, 1984

Diebold, William, Jr.: Prepared statement	38
Pratt, Edmund, Jr.: Prepared statement	33
Roth, Hon. William V., Jr.: Written opening statement	3

APPENDIX

Text of statement adopted by the Atlantic Council of the United States, June 7, 1984	41
Statement submitted by the U.S. Council for an Open World Economy	42

HOW TO SAVE THE INTERNATIONAL TRADING SYSTEM

TUESDAY, JUNE 12, 1984

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON TRADE, PRODUCTIVITY,
AND ECONOMIC GROWTH OF THE
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:10 p.m., in room SD–342, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the subcommittee), presiding.

Present: Senators Roth and Mattingly; and Representative Scheuer.

Also present: James K. Galbraith, deputy director; and Ruth Kurtz and Sandra Masur, professional staff members.

OPENING STATEMENT OF SENATOR ROTH, CHAIRMAN

Senator ROTH. The subcommittee will please be in order.

I am going to proceed with my opening statement, as I believe the other members of the panel will be here in a very few minutes, and while I hate to make my statement without a full house, I will yield under the circumstances.

It seems to me that this is a very important hearing. As a matter of fact, Bob and Ed, as you probably know, this is our second hearing of the Joint Economic Committee on how to save the international trading system.

June 12, I don't have to tell you, is a very important date. It's a very important date because it was just 50 years ago that the Reciprocal Trade Agreements Act of 1934 was enacted. That was the singular piece of legislation that really turned this country from support of protectionism or an isolationist trade policy, whatever you want to call it, to the liberal trade policy that I think has played a very key role in the growth of the world economy since that time.

Today, most commentators agree that the international trading system, which grew from the 1934 Trade Act, is in serious trouble.

Now, the purpose of our meeting together today is not to refer to some of the principal causes of the enormous U.S. trade deficit: Such matters as exchange rates, international debt, the slow pace of recovery abroad. Rather, I want to take a long-term look at what we can do to revitalize the international trading system itself.

GATT membership has grown from 23 countries to 88 countries and accounts for four-fifths of world trade today. That in and of itself seems significant. The fact is, however, it does not reflect the growing importance of international discipline to the real trade situation.

I think the erosion of the trading system has come from a number of factors which I won't fully enumerate today, such as the fact that many trading companies receive special treatment under GATT and that other nations of increasing importance to the United States as trading partners simply don't participate in GATT. The relevance of GATT rules, which are based on the presumption that free markets operate in trading nations, is more and more open to question.

As a matter of fact, in Europe, governments have a direct ownership stake in more than half of Europe's 50 largest companies. We also have a problem of industrial policy, especially in targeting industrial sectors for expansion.

So I don't think we can afford to ignore the erosion of the international trading system. The changes in the conditions of trade create real problems for American traders. They have given rise to calls for protectionism. Protectionism might make trade fair in this country, but I, for one, think the costs will be high in lost export sales as other countries retaliate against us.

Frankly, domestic protectionist action will do nothing to make trade competition fair in international markets where I believe the real growth of jobs and opportunity lies for this Nation.

Maybe the confusion results because of the current catchphrase we use to describe our basic trade objectives—free and fair trade. At best, it's too obscure. At worst, it's a code for protectionism. So I think we can start creating a U.S. trade policy for the 1980's by adopting a new phrase to summarize U.S. objectives. Instead of free and fair trade, let's talk about equitable and expanding trade.

If we clearly recognize we have two trade objectives, to make trade equitable and to help it expand, it also becomes clear that we must find better ways than protectionism to pursue our dual trade interests.

And that's what this hearing is all about.

The basic question that I would like to pose to this distinguished panel is: How can the international trading system be reformed to bring equity to our trade relations and at the same time support trade expansion?

I think that in Congress in particular, we take too short-term a look and rarely take the long-term look and that's what we are trying to do through these series of hearings.

[The written opening statement of Senator Roth follows:]

WRITTEN OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR.

I welcome you all to this second hearing of the Joint Economic Committee on "How To Save The International Trading System."

I am very pleased that today, in particular, we have been able to bring together this eminent group of witnesses--Ambassador Brock, Bob Strauss, Governor Busbee, Ed Pratt and Bill Diebold--to discuss U.S. policy toward the international trading system.

June 12 is an important date in trade policy history. Fifty years ago, on this day, the Reciprocal Trade Agreements Act of 1934 was enacted. With that Act, the Congress as a body recognized that isolationist trade policies do not serve the national interest. The 1934 Trade Act began the process of dismantling the sky-high Smoot-Hawley tariffs which intensified the hardship of the depression years in this country and abroad by precluding job creation through trade. As a substitute for isolationism, the 1934 Trade Act provided a congressional mandate for a cooperative approach to trade through United States leadership to construct an international trading system.

Today most commentators agree that the international trading system, which grew from the 1934 Trade Act, is in serious trouble.

In saying this, I am not referring to the principal causes of the enormous U.S. trade deficit: exchange rates, international debt and the slow pace of recovery abroad. This ground has already been covered in other hearings and is already the subject of much public attention.

Discussion of the trade deficit is, of course, critically important, but it can obscure an underlying and serious trade problem for the United States: the erosion of the international trading system itself.

Ostensibly world trade and U.S. trade interests are fostered by the GATT, the General Agreement on Tariffs and Trade, which is the foundation of today's trading system. GATT membership has grown from 23 countries in 1947 to 88 countries, accounting for four-fifths of world trade today. But this impressive gain in membership hardly reflects the growing importance of international discipline to the real trade situation.

The erosion of the trading system has a number of facets. Today, many trading countries receive special treatment under the GATT. Other nations of increasing importance to the United States as trading partners simply do not participate in that institution. Growing areas of trade, such as services, are not covered by the agreement, and new barriers to trade are proliferating in traditionally important trade sectors. The relevance of GATT rules, which are based on a presumption that free markets operate in trading nations, is more and more open to question.

This last point particularly concerns me and others. Some have in fact referred to the increasingly blurred distinction between public and private enterprise as the central dilemma facing trade policymakers in the coming decades. In Europe, for example, governments now have a direct ownership stake in more than half of Europe's 50 largest companies, and in some countries state-owned companies amount to nearly half of the industrial sector. In other countries--Japan is the most-noted example--the state may not own the productive facilities, but it has a significant role in industrial policy, especially in targeting industrial sectors for expansion.

We cannot afford to ignore the erosion of the international trading system. These changes in the conditions of trade create real problems for American traders. They also give rise to calls for protectionist or unilateral trade policies--calls which will not be silenced as long as the trading system remains out-of-date.

Protectionist responses to the frustrations of today's trading conditions are understandable, but they are misdirected. They misunderstand the United States' trade interests. Protectionism might make trade fair in this country, but the cost will be high in lost export sales as other countries retaliate against us. And domestic protectionist actions will do nothing to make trade competition fairer in international markets, where the real future lies for U.S. jobs and economic growth.

38-970 O - 84 - 2

Perhaps this confusion results because the current catchphrase we use to describe our basic trade objectives--"free and fair" trade--is, at best, too obscure. At worst, it is a code for protectionism. We can start creating a U.S. trade policy for the 80's by adopting a new phrase to summarize U.S. trade objectives: instead of "free and fair" trade, let's talk about "equitable and expanding" trade.

When we clearly recognize that we have two trade objectives--to make trade equitable and to help it expand--it also becomes clear that we must find better ways than protectionism to pursue our dual trade interests.

That is what this hearing is all about.

The basic question I pose to the distinguished witnesses and my colleagues today is: how can the international trading system be reformed to bring equity to our trade relations and at the same time support trade expansion?

My hope is that June 12, 1984, like June 12, 1984, will mark an important turning point in our trade policy history; that together, we can develop ideas to save the international trading system and recommit this country to a cooperative approach that will ensure "equitable and expanding" trade.

Senator ROTH. Now I'm not going to introduce our distinguished panel because to try to say much about either Bill Brock or Bob Strauss is ridiculous. They both have been extremely capable special trade representatives. They both have been ex-chairmen of their parties. They are known as bright, innovative thinkers. We are delighted to have Ed Pratt here who has provided much leadership from the private side, now chief executive of Pfizer and he has been for some time the chairman of the Emergency Committee for Action on Trade. Mr. Diebold is our intellectual in place. He is well known for his prominence as a scholar on the Council of Foreign Relations. He's written many leading articles in the area of trade. So he's our intellectual bellwether.

At this time, Matt, would you like to make any opening comments?

OPENING STATEMENT OF SENATOR MATTINGLY

Senator MATTINGLY. I would just say quite briefly that I would hope that the panel, which I think is a great opportunity that Senator Roth has set up to sort of have a roundtable type of discussion—one thing I would like for everybody to keep on continuing addressing is that the rules we currently have in international trading are probably outdated and probably need to be updated. But I think we have a very tough problem out there. Where we that come from the free enterprise system in countries that are free enterprisers, it's almost virtually impossible for them to compete with businesses or countries that have nationalized industries.

So I would say that we have to figure out some way that free enterprise can compete with nonfree enterprise and I think that is one of the bottom line questions that I hope that we can discuss and debate this afternoon.

Thank you, Mr. Chairman.

Senator ROTH. We have a vote, so we're going to run out and vote quickly and then continue. Let me give the ground rules if I might. We're trying to make this as informal as possible because we want an open exchange. We will ask each one of you—Bill, we'll start with you as the USTR to speak for 5 minutes, to be followed by Bob Strauss, and then the other three gentlemen will do the same, and then we will just open it up to general discussion, if that's satisfactory.

[A short recess was taken.]

Senator ROTH. I apologize. As Bill Brock knows and Bob knows very well, you never can plan. But rather than waste time, why don't we proceed with you, Bill.

STATEMENT OF HON. WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE

Mr. BROCK. Well, I'll just try and sketch a couple thoughts very generally so we can get into the conversation.

First of all, the fundamental essence of what we are trying to do is create a system of rules. I think we've found after 200 years in this country that we are free because we live within a rule of law and we adhere to that and we have a system of justice and disciplines that enforce that law.

What we are trying to structure in the world trading system is a world in which there are rules by which we do business with one another that are predictable, understandable and workable.

In all candor, I think the system that has been built by people like Bob Strauss and Bill Eberly and others that have worked in the area has done a remarkably good job. We have come a longways since the early 1950's when this system was first put into place, but it did limit itself to trading goods. That's one weakness.

Second, we have never been able to include agriculture. That's another weakness. Both of those have to be dealt with.

Third, in terms of the operation of the mechanism itself, the GATT, we in the United States were unwilling to buy the idea of the international trade organization, this first proposal that was very encompassing. It included all exchanges. We were the ones that insisted with some others that the GATT be created as an interim mechanism just to deal with trading goods and I think now we have to take a second look at that decision.

Fourth, inside the GATT itself, the dispute settlement mechanism is not as effective as it could be. You still have the possibility that one country can block the decision of the GATT and if it's criticized by 90 other countries it can still block any resolution or decision. That means that you simply are not going to make progress until you change that fact.

Fifth, countries are going to take protectionist actions. We live in the real world. It's a practical world and they are going to engage in those. If you're going to have those actions, there should be rules within which the actions are taken. And that's what we call a safeguard clause, an escape clause mechanism.

We are still stalemated in creating a safeguard clause and that has to change.

Finally, if you're going to have a GATT that works on an international set of rules, whatever you call it, it has to be an encompassing kind of organization. So, as I said earlier, it has to include things like agriculture that are excepted, and it has to include services, and it has to begin to come to grips with the fact that one of the great areas of abuse in the world today is the theft—and I use the word advisedly—the theft of ideas, of intellectual ideas, of copyrights, of patents, of trademarks, and the present international organizations that's set up to deal with that is just absolutely totally inadequate. It does not have any discipline and we have to come to grips with that, with the investment flaws, with the opportunity for investment, the free flow of investments if you will, the free flow of capital.

If you can do that, then you can begin to put in place an evolving, constantly improving system that will allow us to have an explosion in the growth of world trade, because there is no limit to how much business we can do with each other if we do it within some set of orderly rules and procedures that we adhere to.

And that, to me, is the compelling urgency of an international mandate. I won't even mention at this point what we need to do domestically, but I think I'll just focus on that international need.

Senator ROTH. Thank you, Bill.

We will move to Bob.

STATEMENT OF ROBERT STRAUSS, FORMER U.S. TRADE REPRESENTATIVE

Mr. STRAUSS. Thank you, Mr. Chairman. I, too, want to express my appreciation for being invited here.

As you know, you and I have had many discussions on this matter. It's my opinion that it's the international trading system that sustained the world economy throughout the postwar period and has been a vital contribution to our growth and prosperity in the last 40 years or so.

I think it's now probably in its most difficult period since the 1930's and I think the willingness of Governments to cooperate in the maintenance of international trade in the kind of system we want has substantially declined, and that's a tragedy.

Moreover, it's my general judgment that confidence in the international rules system and the ability of Governments to resolve disputes within the mechanisms that are now in there is at an all-time low. I think, unhappily, for the first time since I've really been an adult, it's again becoming rather fashionable and very respectable to be a protectionist, and that isn't good. And I think that leaders around the world who once stood fast for an open world economy are now quiet and they are exceedingly timid in view of the political realities they face. There are many who really believe that the fundamental premises of what we're talking about here no longer prevail.

I happen to believe that those premises do prevail, but that we need new strategies and we need new policies to deal with the new realities and the new problems that we face in today's world economy.

The subtle change in the outlook of many of these I call our political leaders throughout the world has not come about overnight. We have seen it taking place year after year and I think unquestionably the economic malaise worldwide has taken its toll. I think to put it in perspective, the kind of things we're talking about here today we think of in terms of adding to the quality of life for people all over the world. At the same time the discussions we're having here today are taking place in bars in Wilmington, DE, and in Gary, IN, and in Dallas, TX, and Liege, Belgium, and in France and Germany, and there people don't talk about the quality of life being improved. They think of what we're talking about today in terms of pain and suffering and lost jobs. And I think that's the fundamental premise of the problem that Bill Brock faces and the members of this committee face—how you resolve these two problems that are out there.

If you are unemployed and you live around Sparrows Point, MD, or somewhere, you're not very damned interested in hearing Senator Roth and Ambassador Brock or Bob Strauss or George Busbee talk about how life is so much better when you know, in your judgment, it's cost you your job.

So the core of the problem, I think, is that people are no longer confident that these rules are working in their best interest. People want their best interest to be served and we have to let them know that they are, instead of just every person for himself or country by country for itself mentality that's taken over, and another attitude that I know Ambassador Brock faces wherever he goes—"well, no one else is playing by the rules, so why should we?" And that makes it tough.

Well, I think it's important that all over the world we lend the influence of this great Nation, this great Senate and the House, that has stood so steadfast throughout the tough years, and the administration. That we take the lead. It has to start, and start at the Presidential level. Frankly, I personally am exceedingly critical that we have let these summits go by without having an absolutely hammered out bunch of agreements that were arrived at through hard negotiation and bruises, instead of just so much glamour and photo opportunities. And fellows like Bill Brock ought to be there and ought to be sitting in that hall and around that table, and they ought to be hammering out tough agreements because if you don't have the heads of government from seven countries standing for it and also involving the developing world, you're never going to make any progress. And that's what I think and I think that is the failure of this administration. I don't mean to be critical of the administration.

Let me, as I conclude, Senator Roth—I guess I did mean to be critical. I am. I'll tell you where I'm not critical of them, though; and that is I think we are fortunate—and I have said it behind his back many times and I said it yesterday in Massachusetts and I'll say it here—this country and the world is exceedingly fortunate that Bill Brock is in the job he's in. And he has the background he has for the job and I just don't think this country could be better represented, and I don't believe there's anybody in this administration who could better represent us and very few that could represent us as well. And I'm pleased to say that here for this record. I have said it so many other places.

Thank you very much.

Mr. BROCK. With that endorsement, I may be looking for employment tomorrow. [Laughter.] I'm very grateful to you.

Mr. STRAUSS. Well, I hope you don't want too much dough.

Senator ROTH. At our first hearing there was unanimous agreement by those participants that it was very important to lay the groundwork now for the next round of negotiations and that's something I would like to explore with this group, and I think that is important.

I am concerned. I am concerned like you, Bob, that many people are not speaking up. I'll be perfectly candid with you; I fear that that's going to be an issue in the campaign this fall, that there are many people—some on your side—who are protectionists or espousing protectionism, but I don't want to get into the immediate problem. I think what we are here for today is to chart a course, a long-term course.

We can sit here and talk about who gets who or we can talk about shoes or steel and so forth, but that's not what the 50th anniversary is all about. Let me ask this group this question. Do you agree that we should be laying the groundwork for the next negotiations and, if so, how do we proceed?

Mr. STRAUSS. Let me respond first only because I don't want to leave the wrong impression. When I said I was critical I didn't mean in a partisan way. I meant because one of the things you must look at in this committee is the fact that we can't let opportunities—you don't have but one opportunity a year when you have a summit. There would never have been a Tokyo Round if those summiters weren't really willing to disagree and argue and fall out, if you will, and they did fall out from time to time over the issue of trade. And that was not neat

and not tidy and it didn't look good in the newspapers but it made progress. Schmidt and Carter did that. They took the lead in it.

I wasn't being critical—I didn't mean to be—in a partisan way, except to say those are the kind of areas where you can plan for the future and that's the kind of groundwork that needs to be laid.

Senator ROTH. Well, I agree and, as I understand it, at the summit the Americans and the Japanese did try to initiate action but there was some opposition.

But in any event, what I'd like to do, because I understand you're going to leave in 15 minutes, is maybe explore some of these comments. Would the other gentlemen mind if we withheld your general comments and got to those just a little bit later? I think if we could explore some of these broad problems with all five of you here it would be very helpful.

I wonder, George, what your thinking is about moving ahead on negotiations at this time. You bring an unusual perspective. You're a former Governor. You have provided a lot of leadership in that position in years past and I congratulate you.

TESTIMONY OF GEORGE BUSBEE, FORMER GOVERNOR OF GEORGIA, AND CHAIRMAN, BIPARTISAN COALITION FOR AMERICAN EXPORTS

Mr. BUSBEE. Well, let me say, Mr. Chairman, that I missed hearing your preliminary statements, but I concur with what you have just said. I agree with you. I think certainly we must begin laying the groundwork and we must begin laying it now. It's going to be many years before we come out of this situation. If we're really going to preserve a multilateral trading system, we must lay the groundwork now and I wholly concur with the observations you made which I have just read.

Senator ROTH. Ed, you have been a leader from the private sector and head up a group that provides some very strong leadership in this area. What do you think your friends in the private sector feel at this time?

TESTIMONY OF EDMUND PRATT, JR., CHAIRMAN OF PFIZER, INC., AND CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE [ECAT]

Mr. PRATT. Well, I think, Senator, the proposed actions that we have put together over the last few months and years have had as one of the main items on that list a new round of negotiations of this kind. Both the Business Round Table and ECAT, which I do chair, did put in that recommendation to the administration before the London Economic Summit, that that ought to be one of the main things that would come out of it in the way Bob Strauss is undoubtedly talking about. We are disappointed that we didn't get that, but it wasn't because we didn't try.

So, yes, I think and we all think in the private sector that we certainly—again I echo one of Bob's comments—I have been in the international business field for about 30 years and I have never seen the situation as troublesome as it is right now. We have had 30 great

years as a Nation and as a world in international trade and business development and we are under great stress and we do need to do the very things that Bill talked about in his opening comments.

So, yes, we in the private sector think we ought to be doing what we are doing. We ought to be coming together again and addressing these difficult issues.

Senator ROTH. You know, somebody made the comment recently that it's a little bit like a bicycle. We'd better get this vehicle moving again, that it's critically important. Right now worldwide it seems to be delayed and off track, but that it's most important to begin the momentum forward.

I wonder if you would agree with that, Mr. Diebold?

TESTIMONY OF WILLIAM DIEBOLD, JR., FORMER SENIOR FELLOW, COUNCIL ON FOREIGN RELATIONS, AND COAUTHOR OF "THE NEW MULTILATERALISM: CAN THE WORLD TRADING SYSTEM BE SAVED?"

Mr. DIEBOLD. I think it's too simple to concentrate on just laying the groundwork for a next round. The negotiations are going on all the time. We are laying the groundwork already by what we do and we may be doing it badly. I don't mean just in the United States. We are having sets of negotiations with Canada on various things, with Japan on others. The discussions with the debtor countries are going to affect the trading possibilities for quite some time and we have a whole series of arrangements in the codes that came out of the Tokyo Round and that Ambassador Strauss had so much trouble getting through that still are not operating as fully as one would expect. If they did, they would deal with a lot of the problems that we are now talking about for the next round. And I think probably there has to be a next round.

At one time I thought, along with some others, that the days of rounds were over because you were now in a situation where there were so many different sets of problems that the need was for continuous negotiation rather than rounds with dates and a given agenda. That may now be wrong, partly because of the decline in the willingness to cooperate and the erosion of the system. What a round gives you, as I see it, is some greater possibility of mobilizing high political support for bringing it to an end and avoid a failure, which is what I think Ambassador Strauss was talking about when he spoke of summits, one of which greatly helped the Tokyo Round.

The other advantage of a round is that it can provide a wider package of bargains because you can't really expect every country to have equal interest in steel, in services, in something else and it seems to be easier to match up combinations in a round. So we ought to be preparing for a round. After all, Ambassador Brock tried 1½ years ago to get the ministerial to lay the groundwork and that needs to be continued as he's indicated. But I think we should see this as only part of the whole thing because if we make it the only objective, then those who are reluctant to come along tend to set the pace and also they tend to lay conditions which leave out some of the things you might want in.

So I think you have to have two tracks—rounds and others.

Mr. BROCK. Bill, I want to pick up on that because that is a very important point. I am a bit worried about the tendency to cliche all of this and I think it is an accurate statement—it won't be appreciated, but I think it's accurate that the people who are resisting a new round because they say they want to complete the present business are the same people that are blocking the completion of the present business. They are the people that don't want to do anything any time and, frankly, they are some pretty good friends of ours. But right now they are under economic pressure and they don't want to move.

Now let me just pick up on what Bill said about new trading rounds. As far as I'm concerned, in a legal sense, we started a new round in November of 1982 at the GATT Ministry when we adopted a work program. On the agenda of the GATT is almost every item that everybody has mentioned that ought to be included in the new round—high technology is part of the agenda, services are part of the agenda, safeguards, dispute settlements, agriculture—all of those things are already in negotiation.

Now the question is now then whether or not we are in negotiation because as far as I'm concerned the GATT ought to be, as Bill said, a continuing negotiation. I think that's what Bob had in mind when he set up all the codes in the Tokyo Round. Those things are constantly being updated and reformed.

We are right now in the process of updating the procurement code, trying to get the Europeans to open up a bit more procurement as we thought they might do, and that's a continuing process. You don't have to call it a new round.

The point is very simple. You have a work program. It is in place. The Third World countries have said from their perspective they don't want to talk about a new round until we complete the present round. Let's take them up on that. Let's use the new round as an excuse to badger and to cajole the system to move on the present problems. It doesn't make a whole lot of sense to open it up and expand the system until you make the present one work. Let's take the opportunity then of a new round in that sense we have an agenda and we have the program in front of us.

The only reason to have a new round then is to take it to the political level because right now we are the working level and we are already dealing with these problems, but now we need the political movement to shove this thing off of dead center, off of a stalemate of safeguards and things like that to get some movement. That's why it's logical. And I do think it's a little bit of a copout on the part of some people to say well we have all these preparations to go through. We have been preparing for about 35 years for this doggoned conversation and it's time we got off the dime and get with it and start moving the system in some very tangible positive ways.

Mr. STRAUSS. I just want to make this point. I share Bill Brock's views on that. First, let me say with respect to the codes, all those codes, that was not the end as people thought; that was the beginning; and we understood there would be a constant set of mininegotiations going on. They really aren't mini. They are large negotiations because they are so significant.

There's one big reason—and Bill touched on it and I thought he was going to make the point but he didn't quite finish it—about raising it from the working level to the political level. The reason we really need something that looks like a new round and it's called a new round is that we need Congress to escalate action by a gun. Start them running at a gun toward a line that says you either finished on time or you didn't. That puts the pressure on. It escalates it with interest politically when you start it officially and you have a deadline.

The genius of the last round was—you know, the genius of the instructions that I had from the Ways and Means Committee and primarily the Finance Committee—the genius of it was it helped so much because it set up so many deadlines, including the time that we had to complete it. That was the gun we had.

Mr. BROCK. I agree with that.

Senator ROTH. I would agree with what you're saying. I would say there's a second one, the one I already made reference to. One is to get the Congress involved and get that moving. But second is to get the right psychology generally speaking, to get the press and everybody else to realize that this trade bicycle is beginning to move.

One question I'd like to ask goes back to when we talk about two tracks. Does that mean we feel not only should we be going on a multilateral but we should be also proceeding on a bilateral or regional level, whatever vehicle we can use to move forward? Is that what we're implicitly saying? Is that what you're suggesting, Bill?

Mr. DIEBOLD. This is a matter of extreme difficulty. Trade policy now deals with much more complicated problems than simply reducing tariffs, as has been indicated, and we have found that it is very difficult to get as much widespread agreement as we were used to when we built the multilateral system.

It would be extremely unwise and dangerous to say that, therefore, we can't have any multilateralism and we have to have bilateralism. But it seems to me we have to look for ways in which those who are willing to make headway can do so. Their aim should not be to exclude others but to improve the system, if not totally, then partially. The problem is to find what arrangement can be made among two—or more—countries which would then be in the long run compatible with equal treatment, multilaterialism. It's very tricky and very difficult to do, but the effort may be a prod for those who are going a bit slowly on the multilateral front.

It seems to me that in our negotiations with the Japanese about what is and is not possible in high technology industries—remember, I'm an outsider and this is how I read it—there are the beginnings of the laying down of some rules which would be perfectly applicable multilaterally once the Europeans felt ready to risk their technological necks, which seems to be a problem.

Senator ROTH. I'd like to throw out one additional question and ask you first, Bob. This question goes to the very principles upon which GATT was based and there are those who say we ought to reexamine them. One of the original premises of the GATT was, of course, that trade takes place in a market economy, that in each country industry is pretty much privately owned and each industry desire to succeed as shown by a P&L sheet. Today, that's no longer true in many areas.

In Western Europe, as I mentioned earlier, 50 percent of your large corporations are at least partly government owned. You have a case in Japan where you have industrial policy, targeting, whatever you call it.

Does that mean that GATT in its present form is irrelevant and out-of-date? Is this something that we ought to reexamine or is this just one part of the problem?

Mr. STRAUSS. If you ask me first, in my judgment, GATT should not be thrown out and should not be abandoned. There's too much of value there. It does need to be reexamined in the light of today's problems which are entirely different.

When I think of that pitiful little subsidy code we managed to get, it was a feeble first start. Really a halting first step or two. It wasn't even very clear because we never really got agreement, if you want to know the truth. When I think of that in terms of now, Bill Brock inherits the problem of dealing with subsidies with that mechanism to work with, it's like trying to put out a forest fire with a hankerchief or a bandaid. It's no help.

That doesn't mean that you abandon the subsidy code we have. That means it has to be built on and dramatically built on.

Senator ROTH. Can our companies compete with a wholly government-owned company? Can you really handle that through some kind of a subsidy code?

Mr. STRAUSS. I don't know that we can handle it. I don't know the answer to that. If I knew the answer to that, I wouldn't be sitting here wasting my time trying to just talk about it. I'd be on my way to the Moon with the answer so everybody in the world would see me. I don't know the answer to that.

I do know this. The time is going to come when the people of this Nation are going to be unwilling to compete with governments of the world and we are going to have the damndest backlash we've ever had and the worst part of it is if you go to Germany and you go to France, you find that they feel just as put upon by some of their other neighbors in Europe and even more so by this country. And we are not without blame in this country. We are not without fault. You can start listing subsidy violations in this country and they will fill a pretty good sized book also.

So someone needs to tell the people of America that—that we are not blameless, and we all need to get together and improve this whole system. It's just that simple.

Senator MATTINGLY. You were making the comment about going to the Moon. Maybe we could get people to trade with us, since we're not trading with too many right now, and you made the comment that we ought to be candid and I think I was candid when we first started when I talked about it's impossible for a free enterprise, private sector business to deal with a government-owned industry. Now it is. So the rules of the GATT don't apply. The rules don't work. I'm not saying abandon the GATT, but what we should try to decide here or talk about is not what not to do, not to pass protectionist legislation, but what should we do? In other words, what should the Congress do? What can it do to help frustrated private businesses—and I guarantee you Mr. Pratt and other people in the private sector are frustrated about trying to trade. Now what do you do in this interim period? You

can't sit around a table and talk all the time. There needs to be things done, whether it's using Exim or whatever it may be. We have to tell the private sector how to compete in this market that they are closed out of currently.

Mr. STRAUSS. Let me give you an example before I leave, a classic example of what you're talking about.

I'm on the board of a company in the cement business. We can absolutely bring cement in here from the Pacific, Spain and elsewhere, bring it in and lay it down where we make our deliveries, 40 percent cheaper—40 percent cheaper than we can turn it out here, and there's not that much difference in the efficiency of the two plants, I want to tell you that. It doesn't take a genius to get a little suspicious. You don't need to be a cement expert to know that there's something fishy going on in there just like that. It's true in a half dozen others.

Happily, I am in the private sector now, Senator Mattingly, and it will be a pleasure as I leave to turn that answer over to Mr. Brock.

Senator ROTH. Bob, we are never certain whether you're in the public or private sector. It's nice to have you here.

Senator MATTINGLY. That's really what I was trying to get to. The GATT doesn't get it. It's not helping and as he says, if they're selling it 40 percent cheaper than we can make it here at home, we are suspicious. Everybody knows what is going on and the bottom line is how do we compete?

Mr. BROCK. There are two areas of the problem, Matt. One is here in this country and that's the example that Bob just mentioned where the competition is as a consequence of government subsidy and it would not occur were it not for the existence of that kind of government support. You can call it subsidy or government capital infusion or government loans. Everybody has their own magic bag of tricks, but they all engage in them.

I think our laws are reasonably good at dealing with that kind of competition. We have a capacity to define subsidies with most of our competitors pretty well.

We run into one problem when we get to a total nonmarket economy and there the commerce has had some real definitional problems with the present law.

But in terms of most of our competitors, where the economy is a mixed economy, generally the subsidies, countervailing, antidumping laws are pretty good. They could use some toning up in a couple areas, but basically they are adequate to that need.

The problem is not so much here as it is when Ed Pratt is trying to compete with a third country, and it's much, much more difficult for us to come to grips with that under the current subsidy code and, frankly, this doesn't work very well and that's one of the reasons it's on the top of our agenda to take up in the GATT and that's one of the reasons the people who are doing it are still blocking us taking it up.

Senator MATTINGLY. What does he do in the interim period? By the time we may get something straightened up in GATT it may be 2 or 3 years down the road. What do we do in the interim?

Mr. BROCK. Well, that's the same question you ask in terms of the effect of our competitive situation by the strength of the dollar and about the U.S. Federal deficit. What do you do in the interim? You hurt. There is no good answer for that. The Eximbank can't pick up

all these things. It isn't big enough and it wasn't designed to do that and it probably shouldn't. We don't have any alternative program that I'm aware of that gives us a fix on competing in third country markets with U.S. Government support except in the field of agriculture, and I'm not sure that I would recommend that in the industrial sector.

Mr. PRATT. Maybe I could make a comment or two here about some of the things that have been said.

In the first place, it's an interesting question as to how you compete with a government-owned industry. There's another side to this that you didn't mention that's kind of meaningful, and it goes back to Bill's starting comments. It's a question of rules under which you compete. Outside of that, there's nobody in the world I'd rather compete with than a government-owned industry. They're the easiest to beat, believe me. Look at Britain and the different industries that the Government took over there—their automobile industry and their steel industry. There's nobody easier to compete with as far as product output and the economics of it, aside from the rules under which they operate. I know it's the rules that you really have in mind, but let's not forget that we do compete abroad, American industry, and very successfully with government-owned industries everywhere in the world because we are better. Private enterprise will almost always be better in its product design, its creativity, and its effectiveness.

So, yes, we can compete and I would be delighted to with government-owned industries unless the cards are completely stacked against us so that we haven't a chance. That goes back to Bill's opening statement. In the international game, you either play with a set of rules or there's no game, and we're on various elements of that now. In some places the rules are still not all that bad and in some others they are terrible.

One other thing I think is important that I always like to bring out in these discussions because it doesn't seem to get far. Bill again mentioned it. I was delighted to hear him refer to a very interesting figure that most people don't seem to realize. The latest data that I have seen from the Commerce Department suggests that about 80 percent of U.S. exports—80 percent of manufactured U.S. exports—are exported by American multinational companies and one-half of that total or 40 percent of all U.S. exports are shipped to their foreign subsidiaries. What that says is there is a huge amount of products we send abroad that don't go to some foreign company; they go to our own subsidiaries operating abroad.

What's the importance of that? It is that one of the key things that we in American industry have done over the years, and other countries are doing more and more now, is to invest abroad not only to be successful and develop a profit which comes out of that which is important to us as a nation as well, but also to create a base for export. That's where most of our exports go.

So rules—we shouldn't really be talking about trade rules alone. We really ought to be talking about international business, because we have learned by experience in the private sector that that's the way you're successful, not just successful—again let me emphasize—in getting business, but in also getting more exports. We go abroad and

we build plants and we make part of our products there. We never make them all. The rest of them we export from our U.S. base.

It wasn't too many years ago they were writing books in Europe and the great concern in the world was that international U.S. investment was going to own the whole world. That's changed a lot in recent years, but it wasn't that long ago that that was such a concern in the world and it is still one of our greatest assets, the strength of our foreign investment.

Two things are critical. The rules under which we are allowed to invest and, two, the protection of our intellectual property rights. And Bill mentioned both of those at the beginning. It's pretty clear that one of the problems we face now, certainly in the worldwide automobile industry which has become more competitive and more creative and more productive, we have a difficult time sustaining our much higher labor rates than the rest of the world and still remain competitive both in our markets and other markets around the world. One thing we've still got going for us is the strongest position in technology and if we don't prevent that from being stolen from us then we will have lost one of the greatest things we have I think going in our future.

Senator ROTH. George or Bill.

Mr. BUSBEE. Mr. Chairman, let me make several remarks in response if I might at this time.

I want to agree with what Ed said. That is, I have no concern at all about us being able to preserve our multilateral trading system and competition and cooperation with companies that are owned by governments in other countries. I know you pointed out in your opening remarks that over half of the industries in some countries are owned by Governments and in Europe's 50 largest companies more than half of them have government ownership.

You also point out about the discipline that we have in Japan and they don't own their industries but they do have a lot of control. They do have discipline in the system.

We do have a lack of discipline in this country. I think we have a lack of discipline in the Congress and the administration, but over and beyond that, I think we have some ignorance among the public when it comes to a trading system.

Senator ROTH. Not just the public.

Mr. BUSBEE. Once that's been said, I think if we're here today looking for something for the long term, I think all of us agree that we have to preserve a multilateral trading system and I think all of us know that we have a real danger at this time if things go as they are now going of sliding back into another trade war and going back into the chaos of the early 1930's.

But I did want to make a point today and the main thing I wanted to say is that the trade wars that we experienced back in the 1930's did not occur just because people in high places made some mistakes. Equally important, I think, was the fact that the average people around the world forgot that international trade is indeed a two-way street and they focused narrowly, as a lot of people are now focusing, including some of the Congress but the public—they focus narrowly on the tangible thread of specific imports and ignore the less tangible benefits of exports and the need for a rational overall system of having a trade strategy.

It took a worldwide depression last time to restore some sense of balance to what I'm talking about. So as we come here today and celebrate the 50th anniversary of the legislation that overturned the tariffs, I think all of us should do all within our power to keep history from repeating itself, and I'm frightened by what's going on now and the fact that in recent history we've seen imports grow at a much faster rate than exports, thus causing us ever increasing trade deficits—I know it's taxed the patience of the American people and, as Bob Strauss just stated, I have not been in all the bars that he's been in, but just looking at newspaper clippings I know that people are frustrated at this time.

But the point that I wanted to make is the various trade groups and the various labor groups have really focused in on some specific imports and I think they hope to improve their own lot through quotas and tariffs, etc., without the thought of what collateral effects will be on the trading system. And it's this atmosphere that we're in today that lends itself to political rhetoric, to demagoguery, and a lot of other things, and this is exactly what happened 50 years ago, and I just hope we don't succumb to it.

We have to come up with a long-range trading policy and I think right now that in the Congress, in the Nation as a whole on the national agenda, I would say the trade policy ranks somewhere between maybe hog futures and potholder affairs on the national agenda, but it's not way up there by any means.

And why is this the case? And that's because the general public I don't think really understands the export policy and what exports mean to this Nation. I don't mind competing with other nations. I think there is a way that we can compete even where they have companies that are owned by the Government and I think that it's time for us to enlighten the American people, for us to speak up, and I would also like to say for the Congress to have some bipartisan movement made to identify this as a national priority and the private sector to do that.

Many of us have been working on the President's Export Council in this administration and previous administrations and you know if you've been there, it's just a voice in the wilderness.

Senator ROTH. Could I suggest this, because I agree with you. I think it's important to get the debate turned around. It is all emphasizing on the negative, on protectionism, on some very serious specific problems, and overlooking the other side of the coin. Would it be possible to get some kind of—the Governors' Conference, for example. You, as a former Governor were very active in that and I must say the Governors in a number of States have done some excellent work in promoting exports and trade. But I think it would be very helpful if we could get that organization to come out with some strong statements over the next year. Between now and the election, a lot of things are going to be difficult, but once that is over, if we can get their strong support and begin in each State some actions to promote it, that would be helpful.

Mr. BUSBEE. Let me respond to that and then I'll hush. The last challenge that was issued in the trade area was issued by Governors' Conference to the administration and that was the most fabulous success I have ever seen as far as taking a mesage out in the wilderness

off the Potomac to little industries that were interested in engaging in exporting. We weren't talking about importing. We were talking about exporting.

The Governors came to the administration and said, "We have export offices and we have trade offices in Europe, Japan, and other places. We are active in it, but we need the Federal participation and we need to coordinate our activities. There are a lot of impediments at the Federal level." We had a long discussion. I won't go into it, but you're familiar with this.

If you will recall back in 1977, the President agreed to the requests that were made by the Governors of the 50 States and we had three hearings, one in Seattle, one in Cedar Rapids, and one in New York. We had a commitment from the Federal Government that we would have the counterpart to Ambassador Brock and we had at least three Cabinet level people or five Cabinet level people at all of these meetings. We had over 2,000 businesses from America that came and attended these meetings that lasted over several days.

So what you're saying is if you were to challenge the Governors today, would they join in themselves, and I would say, yes, that would be turning it around. But really, Mr. Chairman, I think this is what we need. We need to go to the American people and get support for those few people like yourself and others that have meant so much in the export area and it's out there—it's just waiting, and I think that the Governors, in answer to your question, yes, they would accept that challenge and I'd like to work with you on that.

Mr. DIEBOLD. If I could go back to this question of the government-owned organizations, I think it's extremely difficult and I think it's one of the most important problems in the field. It's one of the most difficult problems as well as being one of the most important, and there is no single or clear-cut solution that is remotely possible so far as I can see, and that's for a lot of reasons.

The point has already been made that on several points—subsidies, credits in third markets, Government procurement, rules on investment and others—we have agreements that touch the State enterprise problem without dealing with it entirely.

One reason it's complicated is that it's not just a matter of whether the Government owns the corporation or not because you can get the same results by various forms of Government aid or control. From the point of view of the rest of the world, things that are done in the United States by a combination of public policy and private business are the equivalent of what other countries do with State enterprises.

The second difficulty is that the motive for the nationalization is often quite varied. I was delighted to hear Mr. Pratt say that he would love to compete with such companies because I was brought up to think that nationalization was a sign of weakness and inefficiency rather than the other way around and, indeed, when you look around, that is true. Nationalization is often just one form of trying to preserve something that we say we shouldn't let die; in the United States we are apt to put up trade controls. The two forms have their ins and outs.

Another comparison arises when you have nationalization like that in some underdeveloped countries that have only one export and sell copper, say, at losses because they say they would rather take a loss in the price and get some foreign exchange and not face unemployment

at home. That is not radically different from what the governments of other countries are saying about protection and other devices. All these things have to come together and I think that we can't expect the rest of the world to buy the American definition of what is a subsidy, what is fair trade, because we have a certain set of rules about what should be private and what should be governmental.

The role of the Government in the economy in most other economies is different from ours for historical reasons, good, bad or indifferent, and it was always so. GATT was really not intended to be just for private enterprise economies. In fact, we couldn't have had GATT if we hadn't said it is compatible with different systems. The British were then not only nationalizing but thought to be on the verge of a general subsidization. The French had made major nationalizations under the first De Gaulle Government. There was not going to be an international trading system unless it made the two things work together.

There are things called State trading rules in GATT. They're very feeble, but they represented an aspiration to make publicly owned enterprises act as if they were privately owned, which is not an altogether consistent idea. But State trading has been a neglected area. There's very little discussion of it. I was around when it was drafted and we knew it was inadequate to say commercial considerations shall govern, but we also thought that some experience in applying this approach would begin to give you better criteria and that's what I think we need to look for now.

Could we define, for example, wherein the performance of these government-owned companies becomes offensive? Is it inherently grossly unfair? Or can there be new rules of the sort that Ambassador Brock was talking about that address themselves more specifically to certain practices?

Second, I don't think you can cover it all by rules. I think there's going to have to be a continuing discussion in which all parties are sort of saying, "Look, fellows, if this is what it's going to mean, then we are not going to be able to have a wide range of cooperation, because otherwise the whole system breaks down." If you say you can't accommodate government-owned or aided corporations in GATT, then I think you can't have an international trading system because nobody is going to give all those up, even though they may suffer and we may suffer.

Senator MATTINGLY. Let me say that when you say when does it become offensive, we don't care what a country does, whether they own all their companies. If it's just to make sure they employ all their population, we don't care. We don't care how much they take out of their own GNP to do that. That's not the point.

It's when they produce more than what they use at home and they decide to ship it overseas and subsidize it that it gets to be offensive. That's the point that it becomes offensive to U.S. manufacturers, U.S. agricultural people or whomever it may be. That's when it becomes offensive.

In all due respect to getting everybody together, the Governors and this and that, we have discussed this thing until there's no discussion time left almost. Last year we had a $60 billion deficit. This year we're going to have a $120 billion deficit, and we just keep on going ad infinitum out there. Now the Government does make the rules. This Gov-

ernment has to be helpful in some way other than holding hearings in order to enable our people in the private sector to trade.

Representative SCHEUER. Can I ask, in the view of all of you, what part of the overall problem is caused by this so-called package of offensive behavior elements, what part of it is caused by a dollar that's way overpriced that puts us under terrific competitive disadvantage in selling goods and services to other countries, and what part of it is just doggoned effective competition abroad that we haven't sharpened up our competitive facilities to match?

I take one perfect example, the steel industry. The steel industry has been living on capital for over a generation and they have spent their cash flow in buying oil companies. I just throw that out as an example. They aren't competitive. Whether their labor is as effective or as productive as the Japanese, Swedish and West Germans, I don't know, but we tend to lump all these things together.

Can you sort of differentiate these sorts of three rough different categories of competitive disadvantage under which we are laboring?

Mr. PRATT. I might make a comment or two about that, Jim.

I think one thing—it doesn't give you any answers but I think it helps to understand the situation—we are overlooking in our discussion some pretty earthshaking things that have happened in the last few years that have brought us to this, perhaps the most serious one of all was the oil crisis. I can remember when that crisis first hit that some very knowledgeable financial types that I happen to know claimed that the world absolutely couldn't survive more than a couple years. It would just burst apart with the tensions caused by that tremendous shift in economics that the oil crisis brought on. However, while we have survived it it has done a great deal more damage to all of us than we realize. It's nailed everybody to the wall economically speaking, and it's taking what were economic stresses that could be dealt with and made them almost unendurable.

Out of that has come a position where every country, including ours with these deficits that you're beginning to talk about, has very little room to give. As Bill says, in the negotiations, everybody is hurting and everybody wants to come back from a negotiation with a better situation than they went in with. I don't know any answer to that.

We have a very, very difficult economic balance there. To go in and negotiate and try to come back with more than you went in with—and nobody can afford to be very giving in the interest of the long term, is a very difficult thing to accomplish.

So I think we have to keep in mind that we have that overriding situation. We in the private sector have tried to think of the question you posed when you called this hearing, do we need to reorganize the whole approach to trade and controls. God knows, I'm not wedded to the idea of GATT for any special reason and if there were a better way to do it, I think any of us would say fine; but in all honesty, nobody I know has come up with a better answer.

Now we have an on-going set of rules under which this most difficult game—difficult now because of the economic problems we face—it's the economic stresses that have brought us here more than a breakdown of the system itself. So we can't think of any better system. Therefore, every time we debate this we come to the conclusion that

the best answer is to keep working at what we have and try to make it better and that's what Bill and his people do.

I see progress in some respects, believe it or not. I have said again in other debates like this that I now feel as I never felt before—in my early years in the business community, we were more inclined to say that if Government will just leave us alone and stay out of our hair, we'll do our job and you do yours. It is so complex now on an international basis and the pressures are so great that I at least feel it's now clear that we need an ongoing, closer relationship with our Government than we have had before, partly because the other nations of the world are more competitive and because they have such a relationship with their Governments.

Now I don't want that to go too far even now. I think it's bad for free enterprise and for what our system stands for, but when we are dealing, as you say, with a nation where government plays a lot bigger role in the game, then we have to have more involvement and I think we are getting that. I think our Government is seeing it and responding. The problems aren't solved, but I don't see any answer but to keep struggling as we are, and we are going to hurt some along the way, as Bill said. I don't think we are going to be able to avoid that.

Representative SCHEUER. I wonder if any of the other three witnesses would care to answer my question. What part of our problem is caused by the unfair and offensive practices and what part is the overvaluation of the dollar, and what part of it is just the sheer fact that some companies overseas are more competitive and more cost efficient and produce more cost effectively than we can?

Mr. BROCK. I might take a shot at it and then let George or Bill disagree, but I would suggest that two-thirds of the problem comes from two factors. First, the speed and depth and breadth of the U.S. recovery and the strength of the U.S. dollar which are intertwined, and one-third of the problem comes from all of the trade factors. I include competition, fair and unfair, in that. Out of that, unfair competition would probably be only a third of the third. It really is not the driving difficulty that we face in the world today. The driving difficulty is the fact that this country, in terms of this massive trade deficit, this country is simply doing a better job of recovering than anybody else in the world and that, coupled with our deficit and our high interest rates, have put the dollar at a very uncompetitive level. I won't say it's overvalued because I don't know that. But the danger in all this, when I come to the Congress, the only solutions I hear are solutions that deal with the one-third of the problem, not the two-thirds; and I think that's a mistake we're making in the discussion—not today, but in general terms. All I hear is people saying, well, you've got to protect me because I'm being overwhelmed by "X" and "Y" factors which are basically macrofactors.

Even in the unfair area—we had a pretty heavy debate in the last talks on steel. I was before one of our more significant committees, as you know, Bill, and the request was being made through legislation to put a 15-percent quota on steel imports. Well, now, gentlemen, what that really says is that the steel industry is unwilling to wait 60 days. That's what is really says to get their problem handled because that's all it's going to take for us to complete processing all the unfair trade

abuses against all the countries that practice subsidizing steel into the United States.

Now doggone it, if we can't wait 60 days to solve a problem instead of screwing up the whole system and putting a higher price on every consumer, every steel user and every working person in the United States, then I think we're falling down and that's what's wrong with this conversation.

Your question is to the amount of it. We're dealing with the margins when we talk about all these bills.

Senator ROTH. Bill, do you want to comment?

Mr. DIEBOLD. Yes; I can't put any numbers on these parts, but it seems to me that there's no question that the value of the dollar is extremely important. Now if you go back—if you measure this by the trade deficit, which is very crude but what else do you have—you can see that it got a great deal worse when the dollar was up. I think that was for perfectly obvious reasons, and one of the dangers is, of course, that what looks like a temporary condition—and even if it proves to be temporary—may not so easily be reversed if in the meantime markets have been lost, although that doesn't happen overnight. In another sense, what's very bad about the costly dollar, suggested by the very fact that it is hard to put a number on it, is that you can blame everything on it. That's part of the point Bill Brock was making about people coming around and saying, "Look, it's not my fault. It's them," whoever "them" is.

That's very important because before the dollar climbed so high, it seemed to me that you had a mixed result in which after a long period in which we were losing ground in world markets, it was beginning to turn around in certain fields—not in all. Clearly it was a matter of hoping that our resources would flow to the more efficient rather than the less efficient activities and we'd get better ways of adapting our economy than we had. Steel is a good case; it was on the agenda for a long time and adjustment was slow until the recession really hit. People were beginning to pay more attention to means of improving adjustment. But I just don't know how far you can expect that concern to be carried now even though there's no escape from the fact that if we're going to recover faster than others there's going to be a bigger inflow than outflow of goods during that period.

Senator MATTINGLY. I'd like to say something else. I think real positive things are happening and I know Governor Busbee has been involved in them. I held a seminar in my State a couple weeks ago with the Commerce Department and the Export-Import Bank and over 200 businesses showed up to learn not only just how to use Exim but they were starved to learn how to trade, to export. It shocked me that that many would show up at a meeting like that. But I think what you were talking about, trying to educate the public—if you just throw the bait out there, people will want to learn how to trade. They are starved to learn how to trade. To me, that's part of the process that I think we can all get involved in. In other words, if I had a company and with the five of you being here, you'd be the five best salesmen I could go out and hire. I know I'd sell it because you have the knowledge, and I think that's what we have to instill and show people how to trade. We know how to get the stuff in the country, but in order to get it

out we need salesmen, strong people, and they need to know how to do it.

Senator ROTH. I'd like to get back to the trading system. What would be your recommendations as to the three steps that should be taken or four or whatever number you want to take, including by Congress, to strengthen the international trading system? What I'm really trying to deal with here is we're not going to solve all these macroeconomic problems, at least in this particular hearing, but what can we do, those of us in the Congress, and what can Government do to strengthen the trading system so that we have the kind of rules that our business will look upon as an aid, not in the sense of giving them a competitive advantage but a fairer shot at world trade? What would those steps be? Who would like to start out?

Mr. BUSBEE. Well, I'm going to kind of respond a little bit to the question you just asked leading up to this about the value of the American dollar. That has a serious effect on trade, no question about it. Interest rates and the value of the dollar. That's not what we're talking about today, but over and beyond that, I think there's a misconception that a lot of the problem of this imbalance is because of something people in Government do or we're not adequately represented in some of the negotiations that take place, and that's the lowest thing on the totem pole.

We have some good agreements. I think we can live within the system. We need to continue to work on them. We've made more progress in recent years than we ever had in this arena.

What we need to do is what Senator Mattingly was talking about, and that is really assist the manufacturers, the small businesses, the medium-sized businesses in this country to get into the export business. It's not simple because we are isolated from other parts of the world. People in Europe live next to each other and they have exported as part of their system, as part of their lives, and it's new to Americans to do this.

We have had great success in doing this in some of the companies that we have concentrated on that wanted to get in this business. They have had a fabulous success. We need to continue in that area.

But there are a lot of impediments that American companies doing business abroad that can be remedied. I never will forget the flow chart before we had the Export Administration Act in 1979 passed which showed what a person or company had to do to export from this country. It was a flow chart and compared it with other countries in Europe, and it looked like—well, we were backwards.

Now let me just say that we have made some steps in the Congress to kind of assist in this effort. We had the Export Administration Act of 1979. How long did it take to pass? Who was involved in it? How many committees were involved in it? We had the export trading company legislation. I'm not going to guess how many committees we had in the House that were involved in this piece of legislation, but you know when you get in turf battles like Judiciary and Banking and you can't resolve the turfs and it's diffused and it's not focused in and you don't have the discipline you mentioned in your remarks, Ed, that you have in Japan and other places. It makes it extremely difficult.

So what I'm saying is if you could take the people in the Congress that really know something about trade and you could concentrate in some way to focus in on these issues without going to so many committees, I think that streamlining would do more than anything. We are light years away from establishing trading companies to compete with those that other countries have all over the world, but we are making some progress. But we really need to streamline our operation of the Congress that works with the private sector. You need to do something in the Congress to interface better with the business community in the trade area.

Senator ROTH. Bill Brock tried to reform the committee system several years ago. I must confess that would be a major step forward, not only in this area but in many other areas. Bill, do you want to comment?

Mr. BROCK. Yes.

Senator ROTH. I'm sorry I asked.

Mr. BROCK. That's really what we're here about.

Before I answer your question, let me tell you what we're trying to do to get us on this track on the new round as we go through the sequence of events.

Representative SCHEUER. Before you go ahead, can you tell us, on the new round, why at the London Summit Conference, last week, we didn't make a more vigorous effort to get some kind of consensus on the new round? Was the President so keen to preserve peace and harmony and the quiet of the graveyard at all costs that he didn't want to instill any controversy at all into the proceedings? Why didn't we really lead in trying to get agreement on a new round?

Mr. BROCK. Well, we have, I think, agreement on the new round. I think we got what we wanted. When you look into the conversations that we had over there and the President had—and there was no—in the final analysis there was no disagreement. What a couple of the participants were worried about was putting a specific date on it. That, frankly, I'm not troubled by. I think we have this process moving very well now and I'm not in the least bit troubled. I think we got exactly what we wanted in the summit session. I think we came away with a very substantial success and I guess I'm not sure what count you might be referring to that would indicate otherwise because I felt very comfortable with the results.

Representative SCHEUER. That's fine.

Mr. BROCK. That's really what I was going to say. I want to remind you how this thing began. I guess we talked about this maybe at least a year ago in the Williamsburg Summit, if you remember, and I have had any number of meetings since that time following which the President met with the Prime Minister of Japan in Tokyo, and I had a meeting with specific countries in Seoul about 2 months ago and followed that with other countries in Manila, and followed that with a 17-country meeting that I held here in Washington. We went to the OECD with the four cabinet officers in that. We had the summit meeting in London. We will have now two more meetings of this sort—three more meetings between now and November of various groups of countries. All of these are focusing on how we can get the

present work program and the new round really tracking and, as I say, I think we are moving remarkably well down that path.

I do agree with Bill's point earlier about a continuing negotiation. You do have to keep that in mind because I think it's quite possible that instead of having one new trading round we may have a whole series of them. I think when we are ready to deal with agriculture—Matt Mattingly has a terrible problem down in Georgia with his poultry, the subsidized exports which you're running into in competition—if we could get some agreement or apparent prospect of agreement at the working group level, we ought to go right then to the political level and have that meeting on agriculture to see what we can get moving off the dime.

Senator Roth. Could I ask a question right there? There have been a number of commentators that say the time is ripe to move on agriculture. What do you think?

Mr. Brock. I think it may be. We're having some very constructive conversations. It's interesting, the dichotomy. The EEC has offered to kick us in the teeth with the corn gluten and hybrid corn actions that they propose to take at one and the same time. We have had some very interesting conversations going on about fundamentally maybe including new rules. So maybe we need a crisis to get this thing moving. We are at a point of crisis. It seems to have a possibility of moving. But I don't want to put too much hope out on that until we actually have it on the dotted line. But that's where we're working. We are pushing very hard in that sort of thing.

Bill, I sort of took your questions to really be addressed to what could the Congress do, and I wanted to mention a few things in specific terms.

First of all, may I just implore you, particularly this committee which should be the most logical committee of all, to take a look at the whole structure of U.S. laws—tax and business laws—to see how they affect our competitive situation overseas.

I can give you an example. We don't have in this country a value added tax. We don't have a consumer tax. Our whole tax system is predicated on taxing savings and investments. That, to us, is good social as well as good economic policy. We have had that decision since the early part of this century.

I think it is at least fair to ask whether or not the particular blend of taxes that we have at the moment is the most appropriate blend to allow us to compete as effectively as we would otherwise compete with countries that use a different tax system. I'm not suggesting we ought to adopt their system, but I am saying that if we are going to keep ours, we ought to justify it in the Congress on the trade issue, and that's No. 1.

Representative Scheuer. Can you elaborate on those trade effects?

Mr. Brock. Yes; let me give you an example. In Japan there is a tax of 18 to 22 percent on the sale of every automobile in Japan, domestic or foreign. It doesn't make any difference. It just depends on the size of the engine. But that tax is rebated at the border if they export that car. So the manufacturer doesn't have to pay 20 percent on the average if he sells the car in the United States.

What's happening is that the cars that are sold in Japan only are paying the total tax load and that exported car is paying virtually none.

Now for Lee Iacocca or Roger Smith or any of our folks—Bieber—they have to compete with that product after having paid State taxes, local taxes, Federal taxes. But the question is I think fairly asked. Is it really possible for our companies to carry the double load of (a) aggressive tax on their payrolls, and to pick up the societal expenditures of clean air and clean water at the same time, or is that something that we, as a total country, ought to consider paying? I just ask the question.

Representative SCHEUER. Don't we require them when they send a car in here to meet our Federal standards?

Mr. BROCK. Yes; in terms of meeting Federal standards on safety and on pollutants, absolutely. But there is no tax.

Representative SCHEUER. That's right.

Mr. BROCK. And remember that we are in effect telling—I guess maybe automobiles is not as good an example as steel, but in the steel case—and there are a number in my testimony—the steel industry has paid since the mid-1970's, $500 million a year toward meeting environmental requirements. Now I happen to think that it is imperative to clean up our mess for our kids. I don't think we have any choice about that. The choice is not whether we do it, but how we do it. It's the same debate you all have to face in the case of acid rain. Who pays? It's a terribly tough question. But I wonder if we can really say that in a few midwestern companies that utilities have to pay the national cost of dealing with acid rain. I don't think you're going to get that through the Congress. The same question has to go to the trade problem.

Representative SCHEUER. What was turned down on the Energy and Commerce Committee on the House side was the taxing of one mil per kilowatt hour paid by the whole country, and even that failed. We were socializing it and even that failed. So it was equally spread over the whole country and we couldn't get that.

Mr. BROCK. You see the difficulty of facing these kind of questions.

Bill, all I'm saying is that it seems to me that we as a country have had 2 years of being fat and sassy and no competition and not having to worry about it and all of a sudden we have to face up to the reality of the global competitive environment, and that means we ought to look at our R&D laws, our tax laws, our regulatory environment laws, and those elements that affect our trade structure.

Senator ROTH. Let me go back if I might and ask one question on the tax laws because that's an old debate that we ought to revise the GATT rules so that all kinds of taxes can be rebated or at least there ought to be the same treatment. Some economists have argued that's not important. Starting with Lyndon Baines Johnson, the argument has been made that the GATT rules themselves ought to be modified. Now when you and I served on the Finance Committee and we legislated the Tokyo Round, there were two things as I recall that everybody in the Finance Committee practically insisted on. One was that the tax laws be changed along those lines and, second, that agriculture be covered.

The fact is that when Bob Strauss got over there he ultimately had the choice to move nowhere, as I understand it, or yield on those two issues.

I happen to agree with you that we've got to look at our own tax package, no question. As a matter of fact, we hope to have some proposals soon in that area.

Should at the same time we try to revise or reform GATT in this area?

Mr. BROCK. Well, there's nothing wrong with trying, but I can tell you that when everybody else in the world has a different system and you're saying, "You've got to change and adopt our system or we're going to change the rules and put a penalty on you for what you do," I think the odds of you getting that through the GATT are very, very slim.

Senator ROTH. Bill, what we're asking is that you could rebate any kind of tax. Isn't that what the——

Mr. BROCK. We've asked it, but we've been asking it for 20 years, by some of the most skilled negotiators I know, a whole lot better than me, and we haven't made any progress.

Senator ROTH. You don't see a lot of change in the climate as in agriculture?

Mr. BROCK. Not a whole bunch. I give you a better shot at solving agriculture in the near term anyway. Sometimes if you start doing what they do you might get them to change, but right now I don't have any tools with which to negotiate and, if I may, I'd like to make that as the last and final point. I don't make this for myself, but I will tell you, I don't have a lot of bargaining weapons right now.

In January, 1983, I lost section 124 authority on tariffs. I have no general authority on tariffs. This is up to the Congress. We have asked for an extension of GSP, the reduction of the waiver authority which gives us an ability to go on to developing country markets and get a quid pro quo for an exception to the rules of that program. We have pending before the House today the FSC legislation which was one of the things we did work on. We have pending the Danforth reciprocity bill which would substantially improve our negotiating tools. The House is yet to pass the Foreign Corrupt Practices Act which is an impediment to trade in this country because of the failure to have clear language in it. You are debating in both bodies the Export Administration Act today which is a clear area where it's very difficult for American companies to comply and to compete and to see a future in certain markets because they don't know what the Government is going to do and they don't know which way to turn and they don't know how to comply with what I think is a generally agreed upon goal.

In all those things, if I may be so bold, affect our ability to deal with the trade problem and the Congress really could give us a significant new mandate by strengthening the tools for negotiating authority of the trade negotiator. And I don't use that for myself because if any of us could use those tools that would be fine, but the fact we don't have them is frustrating. We can see some opportunities where we could make progress.

Senator ROTH. Thank you, Bill. I'd like to ask the other gentlemen and then I think maybe we're getting close to 4 o'clock and so let's try to wind it up. Bill, what would you urge as the—I'd like to particularly emphasize the long term—what should we be seeking in developing a strong trading system? What would be your principle?

Mr. DIEBOLD. Well, I didn't come prepared to tell Congress what to do, but like any good citizen, I am prepared to do that at the drop of a hat. And since you asked, I did scribble down three things.

One that struck me as a real long-term problem is that the relations between the legislature and the executive in this great policy debate now need a new kind of attention. There was the great constitutional innovation in 1934 of delegating the negotiating power to the President on tariffs. For all the reasons that have been made clear here, that is no longer sufficient. I don't mean that we don't want it. I agree entirely with Bill Brock that you have to have more bargaining power than you have now. But there are far too many issues that are now international trade issues that politically and even technically cannot be dealt with by simply giving them to the executive to negotiate. You've got to find new ways of handling these questions.

Ambassador Strauss did a remarkable job at getting the Tokyo Round through. Ambassador Brock has the same kind of skills and ability. But the Founding Fathers told us you really can't afford to let the Government machinery be built on the assumption that there is always going to be enlightened statesmanship. So it seems to me that something is needed that engages the Congress in the whole process so that it knows what is going on and can influence what is done without at the same time permitting a situation to arise in which the second bite of the cherry by Congress upsets the entire negotiation. That will take a lot of thinking and working out.

My second point would be to stress the importance of finding ways for those in Congress to endorse the kind of approach that's been talked about here: It seems to me we on the panel have been in a good bit of agreement on basics, about the importance of keeping a trading system of the character we have been discussing. There is an old tendency to regard what is international as something separate from the pursuit of national interest. It seems to me it's been very clear that American policy since the end of the war has been based on the contrary idea that a workable international system in many fields, not the least trade, is highly in the national interest. If you could express that principal repeatedly instead of letting every issue come up as if it were simply a question of what to do about this industry or how to fight back one form of protection or another, we would be better off.

My third recommendation for Congress is closely related. As Governor Busbee was saying, foreign trade is now far more important to this country than it was in 1934 and than it was in 1954. You really can't look at trade issues as a separate category or problems and policy. So every time a trade issue comes up, it seems to me it ought to be looked at in the context of everything else and, in turn, everything else ought to be looked at for its bearing on trade, much as Ambassador Brock was just saying. Now what that means in terms of who in Congress does it and how you organize it is not something for me to say.

Since you indicated these are going to be our final comments, let me just say one thing because it is the 50th anniversary. I've been reflecting a bit on what happened in 1934 and why it lasted. I don't believe in pushing historical parallels too far—you get into a lot of trouble, bad history and bad current advice—but if you try to boil down what Roosevelt and Hull really were doing when they put through, the

Trade Agreements Act, you see that they were saying, "Look, the way things are going in the world economy isn't inevitable, it can be changed. The terrible tying up and freezing of world trade can be ended and it's in the national interest to do it." Nowadays the conditions of world trade are getting worse and not better so I would repeat the prescription. Roosevelt and Hull had between them the political skills which were required, both domestically and internationally, and the determination and the willingness to take risks. Theirs was not an uncontroversial approach. The administration itself was split and there was a fight inside about reducing American trade barriers, sound concepts of reciprocity, and who should get most favored nation treatment. The man who won, let me remind you, came from Tennessee, had served in both Houses of Congress and had been national chairman of the Democratic party.

Thank you.

Senator ROTH. Thank you.

Mr. BUSBEE. Mr. Chairman, just to close out. I'd just like to mention two things in the long term.

The first thing I think we need is a very strong bipartisan effort at the very highest levels to educate the public on the need for long-range trade policies that will really give us a balance to our export and import considerations.

In this, I think we're going to have to be innovative and what Ambassador Brock just said about the taxes is a good example. There's been a lot of fear and trepidation to try new and innovative things, which are the two things we need. Taxes would be one, and the anti-trust law, like the Webb-Pomerene didn't mean anything and to get around it we innovated the export trading company legislation, but we did get around it in order to encourage trade.

I think the second thing that we do need, though, again strong bipartisan support must be marshalled in the private sector to give recognition and support to those in the Congress that will make the short-term sacrifices that are needed to develop the long-term trade policies that are in the best interest of this Nation. I think that's where you're going to get the equitable and expanding trade for this country, too.

Senator ROTH. Thank you.

Mr. Pratt.

Mr. PRATT. Thank you, Senator. I'd like to say first I appreciate the opportunity to be here. I think it's been a very interesting session and I think the way you did it certainly added to the ability to have a good discussion. I think it's the kind of thing that in itself goes toward helping us solve some of these problems.

I agree with the things Bill said. In fact, I was going to say it in a little different way. You can't really address trade or our international business as a separate subject. We made a big study in the Roundtable recently and I'm surprised nobody raised "industrial policy" here in this discussion and I'm glad they didn't.

In our judgment, we went back over—I don't know whether you've seen that study or not, but we went back over the last 30 years or 40 years when people talked about an industrial policy, and we finally came to the conclusion that as we studied it and as we observed it, the main thing that Congress or the Government can do it to give us rea-

sonable rules to play by in the international scene and the U.S. scene. The terms they like to use in the business community is "Give us a level playing field," and you don't have to worry about doing anything else.

Partly in answer to your question, Jim, we can't any longer in this country dominate every field of international activity, but we're a long way from losing our competitive capability. We will do more than our share of innovation and get more than our share of the world business if we have a reasonably level playing field.

Part of that involves, I guess—I think you said you didn't want to talk about this, but we come to the conclusion that part of that goes back to the basic economic situation in the country and therefore we are concerned. We feel that we can't talk about this without talking about high interest rates and without talking about the deficit and the things which all end up making us less competitive internationally because they do have an effect on the dollar and an effect on our ability to invest even in this country.

So I think those are traditional responsibilities of the Government which are still there, and if those are carried out properly, I think a lot of these other problems will solve themselves. And certainly the things that Bill said as well as related things. Congressmen over the years have asked me, "What can we do in this area to help?" And I've said, "Well, you can do some things for us and you can stop doing some things to us." There are some of those that have been mentioned here today.

In an effort to do the right thing, we passed the Foreign Corrupt Practices Act, which nobody disagrees with in principle, and did it in a way which makes it harder for us to compete. The aims of the act can be achieved without some of its unnecessary provisions. So there are some of those things like that that could be done and are in the hopper and ought to be passed that would be helpful.

I think one of the—I can't close without emphasizing what I mentioned earlier—don't forget that we are not just talking about trade. One of the most important things we can do to help trade is to help our ability to invest and operate abroad, which in the long run helps trade as well, as you've talked about as well, Congressman Scheuer.

One of the things that have been most helpful, one of the good things that Congress did—and I know there's constant debate on it as well as other organizational matters and we have them in companies as well—but the creation of the USTR was a very meaningful step that was taken by Congress not too many years ago and we are getting—you talk to any businessman and you will hear from them that we are getting the kind of help and understanding and support there that we badly need in this country and better than we've gotten in most areas of Government over the years.

So although there are organizational questions, without getting into all those, the idea of having somebody who has trade as his main responsibility and has access to the top levels of Government is very important to us in the private sector.

Senator Roth. Before continuing, I ask that the hearing record include the prepared statements of Messrs. Pratt and Diebold at this point.

[The prepared statements follow:]

PREPARED STATEMENT OF EDMUND PRATT, JR.

Mr. Chairman, I am delighted and honored to have been invited here today to discuss with you and your distinquished colleagues and the members of this distinguished panel the question of saving the international trading system. It is appropriate that we do this on the fiftieth anniversary of the signing of the Reciprocal Trade Agreements Act of 1934 -- the act that laid the basis of current U.S. trade policy and that provided the basic principles that underlie the GATT itself.

When I refer to the international trading system I basically am talking about the system of mutual rights and obligations that are codified in the GATT, as well as the somewhat nebulous relationship between the GATT and the International Monetary Fund (IMF) -- a relationship that I believe should be substantially improved upon.

The GATT system has served the United States and the American business community very well and it continues to do so. We all recognize that worldwide recession and uneven national economic recoveries from it have imposed severe strains on the system. The causes of the strains, however, are economic. The system is not at fault, although aberrations from it contribute to the current economic

malaise. Were the rules of the GATT fully adhered to by its members, it is unlikely that we would be here today discussing the "saving" of the system.

Far from being at fault, the GATT system deserves a great deal of credit for preventing the major trading nations from more massively reverting to the "beggar thy neighbor" policies that contributed to the Great Depression of the early 1930's. Indeed, it was to move away from those isolationist economic policies that the Reciprocal Trade Agreements Act of 1934 was so artfully created.

The initial purpose of the GATT system was to liberalize worldwide access to markets through the reciprocal and non-discriminatory lowering of national tariffs. This purpose has successfully been achieved through a series of multilateral trade negotiations -- the last under the leadership of Ambassador Robert Strauss. Tariffs on industrial products now average in the 4% to 6% range among the industrial nations.

As tariffs have been lowered, we have found that a variety of non-tariff measures are the new impediments to international trade. They are many and complex and need to be addressed if the international trading system is truly and adequately to serve the interests of its national participants.

To preserve the international trading system, therefore, I believe that governments creatively need to build upon the existing GATT system by adding rules that will define new

rights and obligations in critical areas of non-tariff barriers. A good start in this endeavor was made in the Tokyo Round of trade negotiations.

I also firmly believe that the GATT system has to be expanded into the area of foreign investment and services. Internationally agreed rules providing surety for foreign investments are sorely needed, particularly for investments in the lesser-developed and newly industrialized countries. In addition to public investments in such areas as infrastructures, private capital is the necessary engine for economic growth. With adequate and enforceable foreign investment rules -- including rules that will protect intellectual property rights -- there will be no international losers, only gainers.

What is also sorely and fundamentally needed both in the United States and in the international institutional framework is close and effective coordination of trade and finance. Policies in both areas have to be developed and implemented so that each will supplement the other. It is inconceivable, for example, that the LDC debt problem can be alleviated and solved without the most careful coordination of trade and financial measures. Regrettably this coordination is too often lacking. Witness, for example, the current languishing of legislation extending the general system of tariff preferences for imports from the developing countries at a crucial time when these countries are struggling to earn critically needed foreign exchange through

exports in order to meet payments on their external debts.

I mentioned at the outset that there was a loose relationship between the GATT and the IMF. It primarily has to do with the IMF certifying to the GATT that balance of payments problems justify import restrictions as part of the payments solution for certain LDC's. I believe that more than this simple certification is needed. The two institutions need to collaborate more closely in seeking cooperative trade-financial measures that will foster the interests of all members of the international trading system. Closer collaboration between the secretariats of the GATT and the OECD would also be helpful.

I would further add that the international trading system needs significant improvement in the disputes settlement procedures of the GATT. It also needs expeditious conclusion of the long standing negotiation of a safeguards code and improvements in the pre-notification of trade barrier procedures. Successful conclusion of a safeguards code alone will go a long way toward strengthening the international trading system.

To conclude, Mr. Chairman, I recommend a seven point program for preserving and improving the international trading system. The points are:

1. The United States and its trading partners should "return to the GATT," i.e., they should reaffirm their commitments to abide by the existing rules and, in fact, do so.

2. We should creatively add to the existing GATT system new rules defining rights and obligations in critical areas of non-tariff barriers.

3. The GATT system should be expanded into the area of foreign investment through development of new rules providing surety for foreign investments and for intellectual property rights. Rules also should be developed for trade in services.

4. Mechanisms to ensure close and effective coordination of trade and financial policies both nationally and internationally is a must if the international trading system is to meet the needs of its participants.

5. The GATT dispute settlement and trade barrier prenotification procedures need improvement to make them more effective. Particularly needed is conclusion of the negotiations for a safeguards code.

6. To address these and related issues, the United States and its trading partners need to convene a new round of international economic negotiations. I commend the leaders of the London Economic Summit for calling for such a round.

7. Because of their growing worldwide economic importance, the developing and newly industrialized countries need to become active participants in the international trading system in ways appropriate to their economic circumstances. They must undertake the system's obligations in addition to benefitting from the rights provided by the system.

Thank you.

PREPARED STATEMENT OF WILLIAM DIEBOLD, JR.

A TRADE ANNIVERSARY POINTS UP SOME PROBLEMS

Fifty years ago today, Franklin Roosevelt signed the Trade Agreements Act giving him power to reduce tariffs in reciprocal bargains with foreign governments. The United States and much of the rest of the world are still feeling the effects of what proved to be a more historic act than anyone realized at the time. But if we want to go on drawing benefits from the process started in 1934, we have to find new ways of doing so.

What began as a recovery measure reversed the historical trend of American trade policy and became the foundation of an unprecedented system of multilateral trade cooperation. A hotly disputed constitutional innovation—the delegation to the President of Congress' power to set tariffs—has become an accepted way of doing business. Most of the Republicans in Congress voted against the original bill but that changed as time passed and once the Eisenhower administration continued the policy it was clear that differences about trade issues no longer lay primarily along party lines. Many changes have been made in the law, some good, some bad, but the framework forged 50 years ago is still in place.

None of this was inevitable or predictable. Other Democratic administrations had lowered tariffs but the effects never lasted more than a few years. Trade liberalization was not the main aim of most New Dealers. The domestic measures of the first year had looked toward management, control and social reform. The President had rejected proposals for international monetary stabilization to keep his hands free to change the value of the dollar. The currents of economic nationalism ran strong and the administration was divided on what to do about trade. It was only after the law was passed that it was decided to interpret "reciprocity" broadly and offer tariff concessions equally to most countries instead of bargaining for privileged treatment of American exports as some people in the administration wanted.

This broad approach, and the Act itself, were the results of Secretary of State Cordell Hull's singleminded devotion to trade liberalization (which he believed would also promote peace) and his influence in the Democratic party. His strongest supporter in the cabinet was Henry Wallace who was not only concerned about farm exports but like Hull was looking for a way to cut American tariffs as well as those of other countries. In 5 years, agreements were negotiated with 20 countries accounting for well over half the foreign trade of the United States. Thus the war made tariffs a minor issue but provided the opportunity for working out the arrangements that became GATT (the General Agreement on Tariffs and Trade). This broadening of the original American initiative has led to major reductions in tariffs and other trade barriers and complex agreements on the handling of trade disputes. Partly as a result of this success, partly because of other changes in the world economy, and partly because of the failure of governments to live up to their obligations and their principles, new measures are needed not only to make further progress but to prevent the existing arrangements from breaking down.

Among many needs, three stand out. Tariffs are still important but the most significant trade issues now concern non-tariff barriers, subsidies and other governmental and business practices. Politically and technically, the simple formula of delegating all negotiating power to the President does not work in these fields so new ways have to be found of getting congressional consent to American action without upsetting complex international bargains.

The second need is for measures that help the American economy adjust to increased competition from imports. Efforts to help workers and companies in that respect go back to the Kennedy administration but are still inadequate. In addition to improving them, we also need other kinds of measures that will both help the American economy become more competitive and make the further removal of trade barriers politically and socially acceptable.

The third need is international. Improving American policy will not suffice unless GATT is strengthened, its rules more strictly adhered to and new ways found of coping with trade issues that are not now handled adequately in GATT or elsewhere. This is a long and complex task in which many governments must take part. What the United States can do alone is limited, but without the United States, no one else can produce satisfactory results.

Roosevelt and Hull took a greater initiative than they realized in 1934 and succeeded. If there is to be American leadership in meeting the needs we can see in 1984, we will have to have their sense that the course of events can be changed

and that it is in the national interest to try. If there is to be any hope of success, there will have to be some of their determination, political skill and innovation, at home and abroad.

Senator ROTH. Do you have anything, Congressman Scheuer?

Representative SCHEUER. Well, it's been a tremendously interesting exchange. I asked in the beginning when you were having your vote to make reference to the claims of the developing world for a new international economic order, which is their way of saying they want to change the rules too, but I fear that's another afternoon's discussion now and we probably ought to let that go to the next session.

Mr. BROCK. It's interesting.

Senator ROTH. Well, I think too many people in this country underappreciate the importance of our trade with the Third World. What is it—something like 38 to 40 percent of our trade that involves the Third World. So that's not a give-away program. That's a very real thing that is in our interest to promote.

Do you have anything, Senator Mattingly?

Senator MATTINGLY. Just lastly, I think Davignon is the one that said something about there being an evolutionary economic change coming over the whole globe, and I think there has been. There are more countries, more people competing that can compete. I think there's greater realization that if we keep this up, we will be driving the trade issue itself to the same level of discussion in our country as fiscal policy and monetary policy and defense policy, and also I think there's greater understanding that trade policy is involved in every one of those. The decisions that we make on fiscal policy and monetary policy and the budget and military—the whole 9 yards—everything is involved within the trade policy of our country.

Senator ROTH. Well, let me just make a couple comments in summing up.

First, I think that we still have the job ahead of us of making the American people understand that trade has to be a No. 1 goal of this country. I don't think that that is yet fully appreciated. We all pay a lot of lip service to it. We really haven't spent enough time, I feel, to try to carve out the strategy that they did maybe back 50 years ago for developing a strong trading system based on this new world.

As I understand, we are all in agreement that GATT is worth saving and preserving, and what we want to do is reform and strengthen it based on the problems of today. One of the problems I think we have to face today is that this is a fast-changing world compared with the old world, and that if the GATT is going to do the kind of job it should, it's got to have that flexibility and be capable of meeting problems much more quickly than it has to date. That's true of government generally.

I sort of look upon some of the proposals on the productivity side. I think we have a coin with two sides. This country, if it's going to be a world trader, has to be competitive. In order to be competitive, we have to eliminate a lot of those impediments that you were speaking about, George, and we have made some progress. If you look back where we were 8 or 9 years ago, we are beginning to move in the right direction, although not as rapidly as we should.

We still need to do more in antitrust. It seems to me when you're considering competition, you don't just look at the domestic market. You look at the foreign competition. But I'm not sure that our agencies in Government understand that.

You mentioned the anticorruption act. Nobody wants to say that they are for corruption, but we've got to make the rules livable and not inhibit our sales abroad to such an extent that it becomes impossible to perform.

But having said all that, it does seem to me that we really have to reform GATT in such a way that it does meet the problems of Government ownership. I'll be honest with you, Ed. It's nice to hear business people say that we can compete and I think in many ways that's true, that private industry is more competitive than government-owned. But the fact is, if they look upon employment as the primary goal of government-owned corporations, that puts our businessman in a very difficult position.

So I think we have to look at the principles on which GATT is based. They were very sound for the 1930's, but maybe, if I understand the consensus of the panel, while we should be moving ahead with another round, we should also be moving at other levels—bilateral, regional, anything that will help push the goals of a world trade market.

I'd just like to express my personal appreciation. I know you are all extraordinarily busy people and to take the time I think is helpful. We would like to continue to work with you in developing the kind of environment that I think is necessary. You're exactly right, George, we've got to have a bipartisan approach. I'll be candid. We're in a campaign year and until November comes it's going to be difficult to make a lot of progress. But I think once that happens, we ought to proceed on some of those suggestions you made.

Thank you very much, gentlemen. I appreciate your being here.

The subcommittee is adjourned.

[Whereupon, at 4:05 p.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

TEXT OF STATEMENT ADOPTED BY THE ATLANTIC COUNCIL OF THE UNITED STATES

June 7, 1984

Fifty years ago, on June 12, 1934, the Trade Agreements Act became law, inaugurating a program for the reduction of barriers to international trade. The Act enabled the United States to take the lead in this process. The reduction of trade barriers by international agreement has made possible an enormous increase of world trade, to a level of $2 trillion a year. This expansion of trade has been a major factor in world economic growth and the improvement of living standards.

The Trade Agreements Act signaled a change in American policy. The Smoot-Hawley Act of 1930 had raised already high tariffs to the highest level in our history. Other countries, in retaliation or in desperate efforts to protect themselves from depression, raised tariffs and imposed other trade restrictions. The result was to deepen and lengthen the most severe depression of the century. It was to this condition that the Trade Agreements Act and the bilateral agreements made under it were directed.

After the war, the Act enabled the United States to take the lead in negotiating multilateral arrangements to reduce trade barriers and to provide general rules for the conduct of international trade. These are incorporated in GATT, the General Agreement on Trade and Tariffs.

Despite the demonstrated success of these trade policies, they are under severe attack here and abroad by those who seek restrictive arrangements at the expense of a broad flow of trade in the national and international interest. Such arrangements often circumvent GATT rules or violate basic GATT principles. Agricultural trade suffers from a host of harmful restrictions and measures to stimulate production artificially and to subsidize exports.

Action is needed to strengthen and revitalize existing rules of conduct and their enforcement. Trade in agricultural products must be brought more fully under international rules. Trade rules need to be adapted to meet the requirements of the management of economic interdependence, of rapid technological change, and of new factors in the world economy.

The Atlantic Council calls on the Government of the United States and the governments of other major trading nations to rededicate themselves to the liberalization of world trade and to undertake new initiatives to strengthen the General Agreement on Tariffs and Trade and to adapt the world trading system to meet these challenges and requirements. The economic and political gains of fifty years must not be lost.

U.S. Council for an Open World Economy
INCORPORATED
7216 Stafford Road, Alexandria, Virginia 22307
(202) 785-3772

Statement submitted by David J. Steinberg, President, U.S. Council for an Open World Economy, to the Trade, Productivity and Economic Growth Subcommittee of the Joint Economic Committee in hearings on U.S. policy toward the international trading system. June 8, 1984

(The U.S. Council for an Open World Economy is a private, non-profit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any "special interest".)

The United States is unprepared, both in foreign and domestic policy, for the free-and-fair-trade strategy that deserves our best efforts in the total national interest, the national-security interest per se, and the enlightened self-interest of every state in the Union. The "liberal trade" community itself, which ought to be out-front campaigning for this kind of initiative, still wallows in fuzzy concepts like "liberal trade", "freer trade" and "fair trade", apparently lacking the conviction, the vision and the fortitude to seek truly free and fair international trade in its most advanced form.

Policy Shortcomings

Our country's understanding of the importance of freer, greater international trade to its economic health and national security has come a long way from the idiotic, devastating trade policy of 1930, even from the enlightened trade policy whose 50th anniversary we celebrate this year, and even from the epic U.S. initiative in this field after World War II. But progress in reducing trade barriers is erratic, more erratic than political exigencies and truly emergency needs may at times warrant. Old barriers have come down, but many remain and new ones go up. With rare exceptions, other countries are no better in this regard, most of them worse. Progress toward free trade (and, overall, an open world economy) by the United States and the other economically advanced countries is retarded by absence of a definitive, deliberate, dependable strategy to achieve this ultimate objective. Lack of a well-designed free-trade charter of rights and obligations contributes, in fact, to loss of ground as crises in industrial or agricultural production frequently evoke import controls not adequately disciplined by strict, well-structured international rules to which all governments should be committed.

In virtually every instance, in this country and perhaps everywhere else, where imports are restricted to help an ailing industry, such controls are not components of balanced, coherent,

industry-redevelopment strategies addressing the real problems of the affected industries -- strategies to which these industries should explicitly be committed and for which they should be held strictly accountable. A new "safeguard" mechanism (failure to negotiate one remains a major failing of multilateral trade deliberations) needs to be adopted, requiring an industry-redevelopment framework for whatever import restraints may temporarily be justifiable.

Trade restrictions through international negotiation or consultation have become fashionable; negotiated or "voluntary" export controls, deemed preferable to unilateral import curbs (especially unilateral import controls threatened by legislatures), have acquired a respectability they do not deserve. Lack of industry-redevelopment commitments by the importing country is only one of their faults.

The code of fair international competition is a patchquilt of patched-up standards that do not aggregate a totally reformed, fully equitable set of rules capable of confining government restriction of legitimate international business to carefully defined measures of last resort in adjustment strategies that address the real problems of industries deserving government help. International rules regarding areas of international business other than trade (for example, services, export financing, foreign investment) are treated as segmented subjects, not as parts of a comprehensive charter through which maximum equity and the most progressive reciprocity can be secured both within each sector and encompassing the entire range of international transactions. Current plans for dealing with these sectors will gain little.

Notwithstanding the rhetoric about our national commitment to "freer trade" (or, more loftily, "free trade"), a definitive free-trade premise is not factored into the decision-making of government and business. It is conspicuously absent, for example, from highly touted, greatly needed efforts to increase productivity, combat inflation and expand exports. The government's plans in trade policy are not where its rhetoric is, and still further, of course, from where its rhetoric ought to be. In turn, the shortcomings of government policy tend to induce shortcomings in business performance. If government set a firm, credible course toward an open world economy, industry would respond more impressively in market performance at home and abroad. The uncertainties in government policy breed uncertainties in business policy, with the result that the system does not operate as well as it could and should in both domestic and international trade. A definitive, convincing national policy to open the U.S. economy to the freest flow of imports (with appropriate protection against properly defined unfair competition), and to open foreign markets to the freest flow of U.S. exports (with carefully defined exceptions in the reciprocity expected from underdeveloped countries), would

make an all-out effort at export expansion and at coping effectively with import competition the priority commitment it ought to be in the planning portfolios of U.S. producers.

Fair Trade/Free Trade

Many have referred to "fair trade" as the goal to be sought, not free trade. They see "fair trade" as a practical objective, "free trade" as a fanciful theory that is nowhere put into practice and is not likely to be so. Others like the concept of "free trade" (although nearly all of them shy away from a definitive policy to achieve it), and the ideal of fair trade too, but they not unreasonably suspect protectionist undertones in the way "fair trade" has come to be used in many quarters.

The fact is that really free and truly fair international trade are inextricably essential one to the other. Fully fair trade, covering every aspect of international competition and embracing international business in the broadest sense , will not result without the spur provided by programming fully free international commerce -- an initiative that would dramatize the urgency of ensuring the greatest equity and the fullest reciprocity in the code of fair international competition. Conversely, fully free trade cannot be sought. secured and sustained without commensurate steps toward fully fair trade. "Free and fair" international trade -- one policy, indivisible -- is thus a more meaningful and constructive proposition than its detractors on all sides of the trade-policy spectrum recognize. It fosters the ultimate in progressive (as against regressive) reciprocity.

Time for a Free-Trade Strategy

The time has come for a definitive strategy to program the phasing-out of all artificial barriers and distortions by the economically advanced countries on trade and other business transactions, and for a closely related, fully equitable code of conduct encompassing all forms of international business. New rounds of international negotiation on such matters as service transactions, export financing, foreign investment, a new "safeguard" mechanism and other trade issues -- such piecemeal efforts are not enough. Some progress can be made in this fashion in each of these sectors but, without a comprehensive free-trade initiative embracing all sectors of international business relations, it will fall far short of what is needed. A free-trade charter as here defined would tend to ensure full reciprocity on trade and each of the other sectors individually, and on all sectors collectively. This prospect would generate support for a negotiating effort of this magnitude.

The free-trade timetable may have to be exceptionally long for certain products, maybe to the year 2000 in some cases. Departures from the timetable may occasionally be necessary to deal

with unforeseen emergencies, but strict criteria should govern such deviations. The promised land of total elimination of trade barriers and distortions, even by the economically most advanced countries, may be indefinitely (some may say eternally) elusive. But a definitive commitment to this objective, and to the domestic policies needed to backstop such a commitment, is practical, and the whole proposition can be made politically palatable.

The United States should make clear its readiness to negotiate a free-trade charter with as many industrialized countries as may care to go this route -- leaving the door open to those who may now be reluctant (their reluctance would deny them the same access to countries comprising this free-trade area as that accorded by member countries to one another). Raising the world's sights to what needs to be done, and to the advantages to be gained by those who participate in contrast to those who do not, will sooner or later energize universal resolve to achieve this goal. Setting a timetable for removing barriers and distortions may tend to accelerate the timetable.

Among other benefits, this is the framework within which we stand our best chance of resolving the severe problems now besetting our economic relations with Japan and the European Community. There is no time to lose in giving these and other foreign-economic crises our "best shot". A strategy that is radically progressive is the best response to pressures and prospects that are radically regressive (the threat best known as "protectionism"), even though the difficulties of carrying out such a strategy are monumental.

Another component of such an initiative is the need to remove barriers to our imports from the underdeveloped countries (in step with similar moves by other developed countries) without requiring the kind of reciprocity we would expect from the industrialized countries joining us in a free-trade area. Some underdeveloped countries will reach the capacity for significant reciprocity much sooner than others, but in virtually all cases the Third World timetable for reciprocal free trade (or anything close to it) will be infinitely longer than for advanced countries, actually defying definition. In no case, however, should the developing countries be given a completely "free ride", devoid of appropriate commitments concerning their treatment of foreign goods, services and capital.

The Third World dimension poses more than a moral issue -- the obligation of rich to poor. There is also a much neglected national-security issue -- the threat to world peace from festering poverty, population explosion and explosive frustration. There is also a threat to our economic well-being if we are denied adequate access to the Third World's critical raw materials at reasonable, rational prices -- an issue that may become more serious if the world's North and South do not engage in a more constructive, more

productive dialogue than thus far has occurred. This access question was given considerable attention in Congressional consideration of the Trade Act of 1974. However, the need to include this matter in trade negotiations (the statute mandated such attention) appears to have been neglected except for our Council's outspoken concern about it. The issue merits high priority in a new initiative dealing with North-South development.

The new relationship we should be building with the underdeveloped countries also involves a vast market opportunity for U.S. exports. The emerging trade pattern we must envisage much more clearly is more than the exchange of our high-technology and agricultural exports for their raw materials and simple manufactures. The pattern for which we must plan is trade in all kinds of goods which exporters want to sell and consumers want to buy.

Programmed removal of all trade barriers affecting imports by the industrialized countries from all sources would bring great benefits to the developing countries even in the face of stiff competition from advanced countries in certain products. The gains may be even greater than those resulting from current policies of preferential zero-tariffs on certain imports from developing countries, especially when one considers the substantial stimulus which the programming of total free trade would give to the ingenuity, growth and import potential of the industrialized countries participating in the free-trade area.

The United States may underscore its commitment to market forces in general and to "free trade" in its trade policy. However, we need more than a stance in this policy area. We need a strategy to achieve the objectives with which we so proudly identify ourselves.

Adjustment Strategy

Essential to securing and sustaining a genuinely free-trade policy is a coherent, convincing national strategy to help ensure the orderly adjustment of American industry, agriculture and labor to substantially and consistently freer trade in an increasingly competitive and interdependent world. A credible commitment to full employment is a major ingredient. A free-trade policy that is good for the nation as a whole must be made good for every state in the Union. There is still no adjustment strategy capable of reassuring the many millions of Americans who have become apprehensive about America's position in a rapidly and radically changing world economy. Without such a strategy, addressing the real problems of ailing sectors of our economy through close cooperation of government and private enterprise, there is reason for deep concern over how much progress can be

made in pruning the heavy thicket of trade barriers even within the limits permitted by current planning in this policy area. The present concept of adjustment assistance is inadequate, made even more so by the denial of sufficient funding in recent years.

The Executive Branch of government is not properly organized for optimum attention to these policy needs. One requirement, as I have advocated in other presentations to Congressional committees, is formation of an inter-agency council on national economic development, equal in stature to the National Security Council and to the foreign-economic-policy council that ought to be formed to plan and coordinate strategy in international-trade policy and other foreign-economic issues.

One of the neglected adjustment issues is the need for government attention to the adjustment problems of businesses that may be adversely affected, not by imports, but by the government's restriction of imports. There are jobs and investments that depend on international trade as well as those that may be adversely affected by international trade. Those hurt by government decisions restricting trade are no less deserving of adjustment help than those hurt by government policies liberalizing trade.

The adjustment strategy necessary to backstop an authentic free-trade policy should be part of an overall domestic-development strategy embracing urban renewal, improved transportation, enhanced productivity and other programs essential to solving the nation's problems at home and increasing its effectiveness in world markets. Full appreciation of such a commitment to national development and of its potential for sound and steady economic growth would stimulate business confidence in the outlook for good returns on heavy new investments. Anticipation of free trade would itself tend to spur impressive redevelopment.

Reform the "Escape Clause"

We conclude this statement with some elaboration of the position we have taken in this and other testimony concerning the need to reform the "escape clause" or import-relief provision of the trade legislation, and the corresponding "safeguard" mechanism of the General Agreement on Tariffs and Trade. The international community is not adequately addressing this issue. Nor is the United States. The subject warrants an important place in a properly structured adjustment policy.

When industries can prove they merit import relief, the only question now decided in extending aid to an entire industry (assuming the President endorses the need for government help) is how, how much and how long such relief should be accorded. Import relief is supposed to buy time for industry adjustment efforts, but it has never been conditioned on detailed programs to solve the real problems of these industries in the context of the total

national interest. The same can be said of specific-industry Buy American requirements in defense procurement (e.g., on textiles and specialty metals). Among their other shortcomings, trade restrictions outside the framework of coherent industry-redevelopment strategies (all trade restrictions are) tend to divert attention from the full range of things that ought to be done to solve the problems that inspired the quests for import controls.

If import controls are to be imposed by whatever means (including international negotiation), the American people have a right to know for what clearly defined purpose these subsidies are required. The time has come to reform the pig-in-a-poke appreach that for too long has characterized the handling of import controls. Import controls should not be imposed in some vague hope and expectation that the industry will use this adjustment time for soundly based adjustment efforts. Clear delineation of such adjustment plans, with full public accountability, should be a condition, a required framework, for whatever import restriction is established. Thus, the nation that provides help to a deserving industry should insist on positive commitments by management and labor, not rest its assistance on a passive expectation that the help provided at public expense will be used productively for the public good. Trade control to buy adjustment time should be a measure of last resort in that context, be as little as possible, and be terminated as soon as possible.

This long overdue reform in the handling of "escape clause" cases is not in conflict with existing legislation. Section 201(b)5 of the Trade Act of 1974 (a provision whose scope has been neglected in trade-policy administration) requires assessment of the petitioning industry's effort to adjust to import competition. By implication, this calls for (at least invites) assessment of government policies materially affecting the industry's ability to adjust, and correction of any statutory or regulatory inequities found to be impairing such adjustment. Such action is an essential component of balanced adjustment assistance to a deserving industry, whether or not import restriction is also provided.

The adjustment-policy framework outlined above should be mandated explicitly by statute. However, there is much the President (with the help of the International Trade Commission and appropriate executive agencies) can do along these lines on his own initiative, as I have suggested many times in Congressional hearings.

○